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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

Asset-backed deal in Canada

The Canadian Auto Receivables Trust has come to market with a $350 million ($302 million U.S.) transaction, the first asset-backed bond offering in Canada.

The issue is backed by retail installment sale contracts and the related collateral security sold by Chrysler Credit Canada Ltd.

Realty executives resign

James Lee, vice president of acquisitions for Bennett & Kahnweiler Realty Advisors, resigned April 22. Ten days earlier, the firm's president, James S. Smith, resigned.

Donald W. Schaumberger, president of The Bennett & Kahnweiler Cos., the parent company, is interim president. He wouldn't discuss the resignations; Messrs. Lee and Smith weren't available for comment.

GIC chief quits Moody's

Weston Hicks, vice president and head of insurance industry ratings at Moody's Investors Service, resigned to join Sanford C. Bernstein & Co., where he will initiate coverage of the insurance industry. He was replaced by Chester Murray, a Moody's banking analyst.

Endowment begins indexing

The $5 million Tanager Place endowment hired Dimensional Fund Advisors to invest $700,000 in two domestic equity indexes and Morgan Stanley Asset Management to run $1.5 million in international equities and global bonds.

Industrial portfolio bought

The $62 billion California Public Employees' Retirement System purchased Trammell Crow Industrial Plains, a $126 million portfolio of industrial properties, from Trammell Crow Co., Dallas.

INSIDE

Illustration by Richard Stergulz

Bondholders in the know

Failing to give adequate financial information to bondholders is not just dumb business, it could prove to be a serious — even fatal — miscalculation in today's market. See Commentary, page 14.

Photo by Michael R. Marrotte

From their Tower headquarters, Sears management is fighting Robert Monks' efforts to get elected to the company's board.

Monks seeks help in battle with Sears

By Joel Chernoff

Investor activist Robert A.G. Monks has asked the Department of Labor to intervene in the voting of 23.5% of Sears, Roebuck & Co. stock held on behalf of Sears retirement plan beneficiaries.

Such intervention could delay the company's annual meeting, scheduled for May 9.

Mr. Monks, who formerly headed the Labor Department's pension program, wants the government to force plan fiduciaries to distribute to employee shareholders information concerning his candidacy for Sears' board of directors. Sears officials told Mr. Monks it would cost him $300,000 to have his materials distributed, which he believes is too costly.

Labor Department officials are reviewing a flood of materials on the proxy contest, and they declined to comment. The Sears' case puts the Labor Department in the difficult position of deciding whether retirement plans should pay for distribution of proxy materials if the company fails to do so.

Mr. Monks' request is part of a last-ditch strategy to get elected to Sears' board of directors in the face of stiff company opposition. Both Mr. Monks and Edward Brennan, chairman and chief executive officer of the Chicago-based company, are courting shareholders for their votes in what has turned into one of the most symbolically important contests of the proxy season. At stake is whether institutional investors can get their own candidates considered in an election for the board of directors, even when no takeover threat is apparent.

Elections of corporate boards are "really a sham," Mr. Monks has said.

His experience provides added proof for the need to overhaul the Securities and Exchange Commission's proxy rules, observers said.

There are other issues. While Mr. Monks emphasizes his extensive experience in business and finance and service on other corporate boards, some observers believe he is viewed as a gadfly by corporate America. Corporate boards are "clubs, and you don't ask outsiders to come in to join the club," said one investment expert.

Sears has taken several steps to make Mr. Monks' efforts more difficult. On March 12, Sears

See **Monks** *on page 32*

Executive Life fall-out begins

Honeywell, Alaska freeze payouts

By Fred Williams

Honeywell Inc. and the State of Alaska have frozen payouts from their employee benefit funds that had invested with troubled Executive Life Insurance Co.

MagneTek Inc., meanwhile, will continue to make payments.

Other companies that invested through Executive Life include Xerox Corp., Revlon Inc., International Paper Co. and Pacific Lumber Co. Company officials confirmed the investments, but declined further comment.

And sources said employee benefit plans at Unisys Corp., IBM Corp. and Cannon Mills Co. also made investments through Executive Life. IBM officials declined to comment; calls to Unisys and Cannon were not returned.

If the troubled carrier goes into liquidation, as some anticipate, participants whose plans bought guaranteed investment contracts or annuities from Executive Life could lose a portion of their expected income.

The collapse of Executive Life, brought on by the deterioration of its massive junk bond holdings, is leading to a flight to quality by GIC investors and more intense emphasis on credit quality among carriers. A longer term effect will be to make the GIC market more efficient; investors can expect to pay a premium for higher quality in their GIC portfolios, according to industry sources. Investors also may see GIC yields suffer.

Executive Life was a force in the GIC business in the mid-1980s and still has about $3 billion in GICs, according to most sources, although as much as half of that could be funding agreements with various state and local governments. Funding agreements are used to invest bond proceeds or other assets pending actual long-term spending.

Executive Life has $10.1 billion in total assets; Executive Life of New York, a division, has $3.1 billion. In addition to $3 billion in GIC liabilities, Executive Life has 170,000 life insurance policies outstanding with a face value of $38 billion and 75,000 annuities worth $2.5 billion.

Employee benefit executives are scrambling for answers on how to deal with Executive Life contracts.

Officials at Honeywell, in a written statement in response to inquiries about its Executive Life holdings, said 16% of its $450 million fixed income for its company savings plan — or about $72 million — is in Executive Life GICs.

"Now that Executive Life has been placed into conservatorship, this 16% of the fixed-income fund has been isolated and will only make payments to participants as payouts are received from Executive Life . . . The company continues to monitor the situation carefully," the statement said.

The situation is similar at the $530 million Alaska Supplemental Benefits System, a Social Security replacement fund for Alaska state employees.

See **Freeze** *on page 33*

Participants may sue over GICs, annuities

Insurer's customers could be held liable

By Hillary Durgin

The recent seizure of two First Executive Corp. insurance company units has confronted employers with the prospect of billions of dollars in potential lawsuits.

State insurance regulators have seized the insurer's two largest units, Executive Life Insurance Co., Los Angeles, and Executive Life Insurance Co. of New York, Jericho, N.Y., to prevent their collapse and a run on their assets. Billions of dollars of potential losses on guaranteed investment contracts and annuities the Executive Life units backed with high-yield bonds are anticipated.

The losses could trigger lawsuits from pension plan participants claiming pension executives violated their fiduciary duties in purchasing the contracts, even though some insurance rating agencies rated the units AAA or A+ — the highest quality ratings — before downgrading them in January 1990.

The magnitude of potential lawsuits is unknown and depends on factors such as the size of possible investment losses, whether state guaranty funds are able to step in and whether employers can and will shore up participants' retirement benefits.

See **Lawsuits** *on page 33*

NEWS DIGEST

Cleveland-Cliffs' plan to acquire more iron ore mines has pitted the company against Tiger Management Corp. and its adviser, Providence Capital. Page 19.

SPECIAL REPORT: INTERNATIONAL REAL ESTATE

With a few exceptions, U.S. pension funds are taking a skeptical and cautious approach to global property investments. Page 21.

FINANCING

Long-term corporate bond issuance is enjoying a banner year thus far in 1991. Page 3.

INTERNATIONAL

Regional mandates are becoming more specialized as they attract more overseas equity assets. Page 3.

An exemption for buying and selling currencies through master trustees won't change current practices. Page 16.

REAL ESTATE

Investors in three RREEF closed-end funds can't agree on how to handle the maturing vehicles. Page 2.

Houston officials are investigating two investments by the Municipal Employees Pension System. Page 4.

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Adviser survey deadline draws near

Questionnaires for *Pensions & Investments'* annual survey of the largest international managers have been mailed. The completed forms, to be used for a special report published June 24, must be returned by May 12. If you have not received a questionnaire, or if you have any questions, contact Christine Philip, directory coordinator, at (312) 649-5217.

RREEF kills planned fund

Limited partners cannot agree on asset disposition

By Steve Hemmerick

SAN FRANCISCO — Principals with The RREEF Funds have killed what was supposed to be a precedent-setting plan on the handling of assets in maturing closed-end real estate funds in a depressed market.

Paul Sack, principal with the real estate advisory firm, said the plan was scratched because of disagreement among the 18 tax-exempt limited partners in three RREEF closed-end funds.

One client, said Mr. Sack, had threatened to sue RREEF if he didn't like the final plan.

RREEF had proposed reallocating a majority of the assets in the maturing funds — about $180 million — into a new closed-end fund RREEF would manage for another 10 years.

RREEF principals and limited partners will meet May 22 to discuss the maturing funds and current market conditions.

RREEF principals will recommend the limited partners avail themselves of a provision in the plan documents that would allow continuing the funds for two more years if members holding 60% of the assets agree to do so.

The principals will say this is a poor time to sell real estate, but it is "up to (the limited partners) to vote," said Mr. Sack. If the vote is to sell the assets, "we will do the best we can."

The three maturing funds are RREEF West III, West IV and Midamerica I.

The original commingled fund documents called for the sale of assets after a 10-year period. But RREEF principals and some clients with ownership interests in the funds believed they shouldn't sell in the currently depressed real estate market because they wouldn't get the best price.

Vacancy rates for offices are about 20%, and values have fallen for retail centers and for warehouses in recent months.

RREEF principals and some of the clients also wanted to keep the fund's properties because they were providing good returns — 13% compounded annually a compound annual total return during the life of the commingled funds.

RREEF principals couldn't simply transfer the assets of the three funds into a new, single fund because some of the clients wanted to sell the assets and get cash, if possible.

One of the clients reportedly interested in selling its share is the Telephone Real Estate Equity Trust, a wasting trust for the pension funds of American Telephone & Telegraph Co., New York, and the regional telephone operating companies.

TREET owns about one-third of the assets in each of the maturing RREEF funds, which gave TREET executives significant influence over the disposition of the three funds. Joseph Russo, investment director at AT&T, Berkeley Heights, N.J., couldn't be reached for comment.

Xerox Corp., Stamford, Conn., with $3.33 billion in retirement assets, also is believed to be one of the limited partners in one or more of the three maturing RREEF funds. Gerald J. Paolini, manager for trust investment strategy at Xerox, said he couldn't comment on his plan's position regarding the RREEF

See **RREEF** *on page 34*

Virginia said to hire for futures

By Trudy Ring

RICHMOND, Va. — The $10.6 billion Virginia Retirement System reportedly has hired three firms to run managed futures, with an initial allocation of $100 million that could grow to more than $1 billion, industry sources say.

The firms selected, sources said, are Kenmar Co., New York; Hart-Bornhoft Inc., Denver; and Ramsey Financial Co., Louisville, Ky.

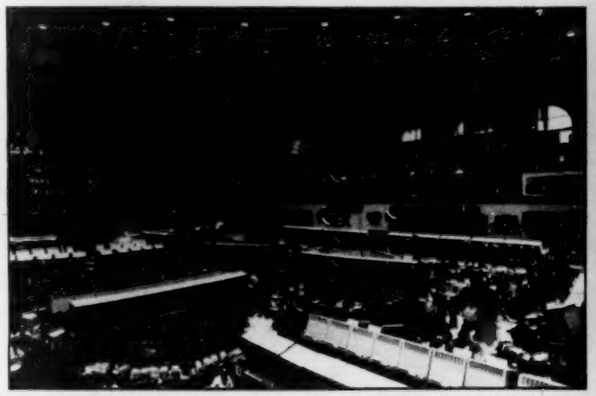
John McLaren, director of alternative investments for the Virginia system, said the fund had not made any such hirings but advised *Pensions & Investments* to check back in a couple of months. Futures industry sources, however, said the Virginia fund already had made its selections.

Of the firms reportedly hired, Kenmar officials declined comment and the others could not be reached for comment.

Managed futures firms treat futures as a separate asset class, not as a hedge or enhancement to a stock or bond portfolio, and use commodity futures as well as financial instruments. Generally, a firm running managed futures will act as a manager of managers, dividing assets among several commodity trading advisers.

Those in the managed futures industry say the strategy offers high returns with low correlation to stock and bond markets.

Few pension funds have invested in managed futures to date. Among those that have are the Eastman Kodak Co. pension fund, Rochester, N.Y., and the City of Detroit Retirement Systems. Also, the Echlin Inc. pension fund, Branford, Conn., invests in managed futures as one component of a balanced strategy. ■



Amex-traded companies could assign unequal voting rights to different classes of stock under an exchange proposal.

Investors pan plan for disparate voting

By Trudy Ring

Institutional investors reacted negatively to an American Stock Exchange proposal to broaden the authority of Amex-listed companies to set disparate voting rights for various classes of shares.

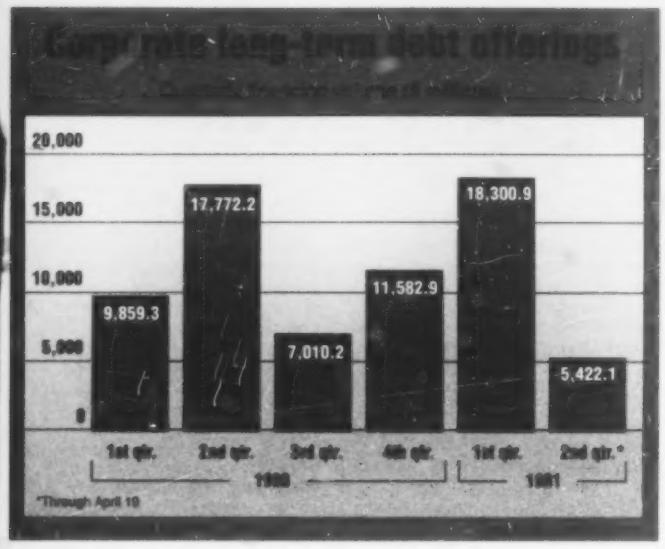
Amex officials contend the proposal would enhance, rather than weaken, shareholder power.

The proposal, subject to approval by the Securities and Exchange Commission, would let companies assign differential voting rights to various classes of shares if the arrangement is approved by two-thirds of all shares or a simple majority of shares not held by a controlling group. Amex rules already allow for disparate voting rights to some degree, but the new proposal would broaden companies' options considerably.

This is not the first time an exchange has sought permission to allow listed companies to change voting rights. A few years ago, when the New York Stock Exchange attempted to change its one-share, one-vote standard, the SEC ruled NYSE-listed companies could have different classes of stock with different voting rights under certain circumstances — for instance, if the company initially went public with more than one class of stock. Also, there was an explicit prohibition against transactions that would tend to disenfranchise current or future shareholders, such as offering an extra dividend to induce shareholders to exchange stock with full voting rights for that with lesser voting rights.

Last year, a U.S. Court of Appeals in the District of Columbia ruled the SEC did not have authority to make such a rule, but the NYSE then adopted the rule voluntarily, as did the National Association of Securities Dealers for its National Market System stocks.

See **Amex** *on page 35*



Excellent climate spurs bond blizzard

By Marlene Givant Star

More than 100 corporate borrowers — lured by low interest rates and tight spreads of corporate bonds to Treasuries — issued bonds of 10 years or more in the first quarter.

But the storm of activity soon might turn to drizzle. Some institutional investors, saying corporate bonds now look richly priced, are contemplating switching to alternatives such as mortgage-related securities.

(The daddy of all corporates in recent weeks, a $1.5 billion offering by RJR Nabisco Inc., was not considered a barometer of the bond market. The success of the seven-year bonds was based on the prospects of the company, not on conditions in the market, according to market participants.)

In the second half of 1990, the corporate bond new issue market was limp because of investor uncertainty about a recession and problems in the junk market. Both caused corporate spreads to widen significantly relative to long-term Treasuries.

But in the first quarter, the end of the Gulf war and a feeling that the recession would be short-lived boosted the potential for a rebound in corporate earnings and increased demand for corporate bonds from investment managers, mutual funds and insurance companies. Insurers began buying them as an alternative to real estate and mortgage-backed securities.

Corporations issued $18.3 billion in bonds of 10 years or more in the first quarter, surpassing the healthy $17.8 million issued in the second quarter of 1990. As of April 18, 31 more companies came to market with long bonds. They include Federal Paper Board Co. Inc., Alco Standard Corp., R.R. Donnelley & Sons Co. and Air Products & Chemicals Inc.

Given the low rate on long Treasuries, "our feeling is the market is clearly in need of yield. . . . That's what investors are looking for, something you can look through the recession with," said Seth H. Waugh, managing director in charge of corporate bonds at Merrill Lynch & Co., New York.

Grant Kvalheim, managing director and head of the capital markets desk of Merrill, said the RJR issue sparked interest in lower-rated investment grade credits with very good stories in terms of outlook, industry position and operating performance. One example is Oryx Energy Co., Dallas, which recently came to market with a $150 million issue of 10-year notes.

"Industrial issuers are favoring 10 years and longer because of absolute rate levels . . . It's been a trend throughout the first quarter. The average maturity is in the longer end vs. last year," Mr. Kvalheim said.

In another deal, Federal Paper Board, Montvale, N.J., in its first public bond issuance, issued $200 million of 20-year 10% debentures. It will use the proceeds primarily to pay down short-term and long-term debt, according to Roger Sanders, controller.

"We felt it was the right time. We've been putting this thing together. We were finally convinced by our bankers that this was the time to do it," he said. J.P. Morgan Securities Inc. was the lead underwriter.

Actually, the company might have borrowed at a slightly better rate in the private market. But "we felt it was time to get our name out in front of the public," Mr. Sanders said.

Another public issuer was Alco Standard, Valley Forge, Pa., which typically issues in the private market. The company borrowed $150 million in 10-year notes at 8⅞%. That Alco Standard is a rare name in the public bond market, plus its quality image and stable non-cyclical business, contributed to the issue's success. It was priced at 91 basis points over the 10-year Treasury, according to O. Gordon Brewer Jr., vice president-finance.

"This was one of the first straight bond offerings we've done in the public market," Mr. Brewer said.

Proceeds will be used to repay short-term debt, which the company wants to keep low until acquisitions, working capital or capital expenditures are required. "We're positioning our capitalization for the growth of the company. We expect all three business segments to grow. We're active in acquisitions and expect to continue to be," he said.

The company drew down a $300 million shelf registration to $150 million.

R.R. Donnelley, Chicago, also drew down a shelf when it issued

See **Bonds** *on page 35*

International niche soars

U.S. plans' regional investing grows to $8.2 billion

By Margaret Price

More international equity dollars are being pumped into country/regional investing than in any other international equity strategy. And the approach is becoming more tightly focused.

Data from InterSec Research Corp., Stamford, Conn., show a jump to $8.2 billion in 1990 from $2.3 billion invested by tax-exempt institutions in country/regional investing in 1988. Quantitative international equity management, which went to $4.1 billion in 1990 from $700 million in 1988, is growing faster, but has only half the commitments.

Initially, regional investing often meant separate portfolios for the markets of Europe, the Pacific Rim, and sometimes Japan alone. But as still more funds take that investing route, some are specializing even further within regions.

An investor might hire managers for the Pacific Basin-minus-Japan, or specifically value or growth managers within a region, or even separate managers for small- and large-capitalization stocks within an area. One unidentified pension fund hired Acadian Asset Management, Boston, this year to manage a portfolio of only German stocks.

Among those hiring regional managers in recent months were the District of Columbia Retirement Board, the Idaho Public Employees Retirement System and the Pacific Telesis Group and Shell Oil Co. pension funds.

Data from Eager & Associates, Louisville, Ky., underscore the trend. The firm's Tracker data base of money manager hires found, for the five months ended March 31, that fully one-third of the 86 international manager selections were for regional managers. Among funds of $1 billion and larger, the percentage rose to 45.5%.

Tracker found that, among six regional categories studied, 34.5% of hires were for an emerging countries mandate; 24.1% were for a Europe-only account; 17.2% were Pacific Basin accounts; 10.3%, for Japan; 3.4%, for Pacific Basin-minus Japan markets; and 10.3% were for a U.S. mandate hired by non-U.S. pension funds.

No comparisons with earlier periods were possible because Tracker only began following regional international investments in November.

"This is a rapidly growing segment of international investing," said Steven Golann, a director of Warburg Investment Management International Ltd., London. He believes regional investing "is likely to encompass 25% of new searches" for international money managers.

A variety of factors explain the rising popularity of regional international investing. Pension funds, especially larger ones, have become more accustomed to foreign investing generally, and are more willing to consider variations. They've also noticed variations in managers' performances: some managers perform better in some regions than others.

See **Niche** *on page 35*

Photo by Margaret Price

More U.S. pension funds are separating Japanese investing from the rest of the Pacific Basin.

Funds seek small-cap managers

By Margaret Price

Six months of strong performance by small-capitalization stocks has triggered a wave of new interest by pension funds and their consultants in this long-time laggard.

Believing small-cap stocks will continue to outperform larger stocks, some pension funds have hired or are searching for one or more small-cap managers. They include the Milwaukee County Employees' Retirement System, Fresno (Calif.) City Employees' Retirement System and the Maine State Retirement System.

More such hirings are expected later this year.

"We've definitely been seeing a lot more interest" in small stocks, said Frank Frey, managing director of Brandywine Asset Management, Wilmington, Del. "The week after the end of the first quarter, I got five times as many calls as normally come in from consultants asking for performance information and characteristics." Brandywine manages close to $30 million in small-cap equities.

Robert Brown, senior consultant with Mercer Asset Consulting in Chicago, calls small-cap investing "our single most popular area of interest at the moment with clients."

He said pension executives are most interested in initial outlays in small-cap stocks, followed by additions to their small-cap rosters and investments in foreign small-cap stocks.

Small-cap stocks generally underperformed larger stocks between 1983 and 1990, but began a strong comeback in October. Between Jan. 1 and April 22, the Russell 2,000 index — which holds companies with capitalizations of $15 million to $250 million with an average of $100 million — advanced 31.39%, more than double the 15.36% gain in the Standard & Poor's 500 Stock Index during the same period.

The over-the-counter market — which lists many small-cap companies — dipped briefly earlier this month, which many believers considered nothing more than a breather.

Henry Otto, chief investment officer for Brandywine's small-cap investments, linked the brief downturn in the NASDAQ Composite Index largely to profit taking in technology issues.

Foreign small-cap stocks have had long-term stellar performances.

See **Interest** *on page 34*

BENEFITS

Improved benefits put umpires back behind the plate

■ Play ball!

Major league umpires returned to work April 8 and 9 with a new four-year contract that provides a cost-of-living increase for their pensions and improved surviving spouse benefits.

The pension boost was one of a number of monetary issues resolved April 8, opening day for 16 teams in the American and National leagues.

The umpire's had gone on strike April 6, and replacement umpires worked the last two days of the exhibition season and one of the eight opening day games. A full contingent of Major League Umpires' Association umpires worked the nine games April 9.

The 60 active umpires and undetermined number of retired umpires gained a cost-of-living pension increase capped at 5% per year for the duration of the four-year contract. The current pension formula calls for vested umpires to earn $2,000 per year for each year of credited service.

The agreement also calls for survivor benefits to be increased to 100% from 50% of earnings.

The Major League Umpires Association had pressed for bigger increases in the negotiations, according to Bob Kheel, an attorney who handled the negotiations for the American and National leagues. The two leagues each pay into the multiemployer defined benefit pension plan. Mr. Kheel declined to disclose the total assets in the pension plans. Pat Campbell, associate with Richard Phillips, executive director of the Umpires Association, said he didn't know how big the plan was, how much the settlement cost or how many retired umpires there are.

The four-year contract also grants salary, per diem, medical, insurance and vacation increases.

An increase in pension benefits is now in the lineup of major league baseball umpires after the early April strike was settled.

PENSION FUNDS

Callan to take a thorough look at Vermont systems

■ The State of Vermont Retirement System has hired Callan Associates Inc. as investment consultant, according to Ronald Boucher, deputy treasurer and director of investments.

Over the next 18 months, Callan will help the state's three pension funds conduct a total review of goals and objectives, an asset/liability modeling study and a long-range plan for how the fund's assets need to be managed to meet liabilities.

Mr. Boucher anticipates moderate restructuring of the investment portfolio as a result of the analyses. The firm will look at Vermont's 5% exposure to alternative asset classes, which include real estate and GICs, to "ensure that it's performing as it should be."

Two equity and two fixed-income managers run the employees', teachers' and municipal funds. The employees' and teachers' funds each has an international equity manager.

The system's former consultant, Becker, Burke Associates Inc., Chicago, "had provided a really solid foundation for the '90s, but the special skills of Callan best matched the needs of the state of Vermont," Mr. Boucher said.

FINANCING

Private placement putting new spin on old company

Willcox & Gibbs inc., makers of industrial products and covered yarn, placed $50 million in notes with Prudential Capital Corp.

■ A turn-of-the-century sewing machine manufacturer that once competed head on with Singer & Co., has spun out a $50 million private placement.

Founded in 1866, Willcox & Gibbs Inc., now a distributor of industrial products and a manufacturer of covered yarn, has placed $50 million of 9.78% 10-year notes with Prudential Capital Corp.

The proceeds will be used to reduce short-term debt.

"The alternative would have been to bring in an investment banking group that would package something for us and charge a lot of money," said Richard Mackey, president. "This was a more economical way to do a deal," he added.

Covered yarn — primarily used to manufacture panty hose — is made by wrapping nylon around Spandex at very high speeds.

Willcox & Gibbs had $568.1 million in revenue and $5.5 million in earnings in 1990.

SOFTWARE

Bonds, stocks added to data base

■ Lotus Development Corp., Cambridge, Mass., has added two analytical investment CD-ROM packages to its One Source data base package.

Packages covering international equities and domestic fixed-income analysis were unveiled in the first quarter, according to Ken Grunzweig, Lotus vice president.

The international equities package provides fundamental data on 10,000 companies worldwide in 28 countries. Financial data include balance sheet information, income statements, cash flow, corporate demographics and current and historical earnings estimates.

The package includes textual information on company-specific accounting practices, financial results, operating statistics and capital structure information, said Mr. Grunzweig.

All financial data are available in local or cross-currency basis. Currency conversion capability is included.

The fixed-income package allows bond managers to enhance strategic and tactical decision-making by providing information on 35,000 bond issues in the U.S. corporate, Treasury and agency sectors.

The data base includes swap, yield spread and portfolio horizon analysis.

Both are fully integrated with the Lotus 1-2-3 spreadsheet and run on desktop PCs as a stand alone or through local area networks. The data are updated weekly.

The stand alone subscription price for both packages is $20,000 per year and includes the CD-ROM reader and the Lotus One Source data base platform.

S&P 500 industry sector returns

	Annualized returns* 1988-'90	1988-'90	1990
[illegible]	[illegible]	[illegible]	[illegible]
Consumer discretionary	11.7	11.9	–9.5
[illegible]	[illegible]	[illegible]	[illegible]
Energy	17.4	19.4	1.4
[illegible]	[illegible]	[illegible]	[illegible]
Health	22.0	24.0	16.5
[illegible]	[illegible]	[illegible]	[illegible]
Producer durables	10.8	8.8	–5.6
[illegible]	[illegible]	[illegible]	[illegible]
Transportation	5.7	8.0	–14.3
[illegible]	[illegible]	[illegible]	[illegible]

* Returns are capitalization-weighted for S&P 500 stocks
Source: SEI Corp., Wayne, Pa.
Graphic by John Hall

INVESTING

Growth stocks, health issues lead

■ Growth managers and health industry stocks produced the best returns in 1990, according to SEI Corp.'s Performance Review.

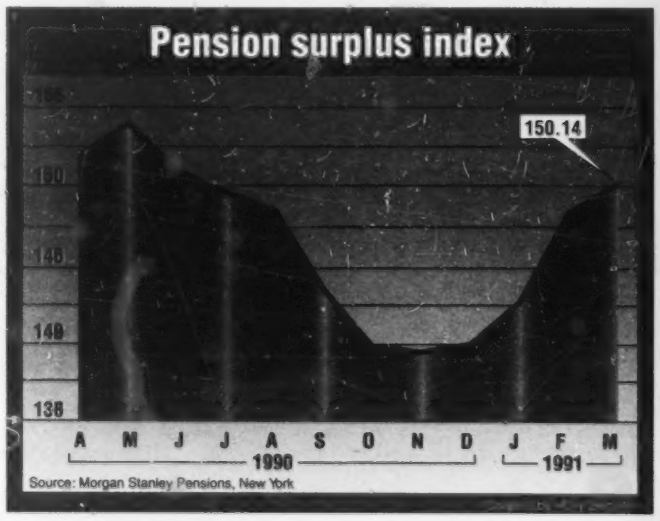
Measuring the performance of six distinct equity management styles, SEI ranked growth managers first with a median return of –2.1% for the year ended Dec. 31. The growth style also led in 1989.

The concentrator style, which focuses on a particular sector or in small-capitalization stocks, fell from second place in 1989 to sixth with a return of –8.8% in 1990.

For the year, the Standard & Poor's 500 Stock Index returned –3.1%.

The health and consumer staple sectors, both considered recession-resistant, were two of the three industries that moved up.

The health sector grew 16.5%, while other sectors like finance and building fell to –19.7% and –20% respectively. Consumer staples grew 7.3% and the third industry, energy, grew 1.4% according to the report.



U.S. funds wary of overseas realty pitch

Poor domestic market keeps skepticism at forefront

By Steve Hemmerick

Pensions fund pioneers investing in international real estate are far ahead of the masses — so far ahead it seems like the masses have lost the trail.

U.S. institutional investors are displaying even more skepticism and caution toward international real estate investment than they showed toward domestic real estate and international stock and bond investing a decade ago.

At a time when the London office market is showing its highest yields in 15 years, U.S. tax-exempt investors are virtually ignoring it and other European major cities as targets for real estate investment.

Tax-exempt investors eventually accepted domestic real estate and international securities investing after several years of resistance. The question is whether these investors eventually will embrace international real estate investing, or whether the risks and difficulties will continue to be perceived as greater than the expected benefits.

The evidence suggests international real estate investing will be a very hard concept to sell for several years. Even if tax-exempt investors follow the normal acceptance curve, the real estate investment managers marketing this product will not see significant asset flows for at least another five years.

The move up the acceptance curve could take even longer because marketers have suffered a loss of credibility with their domestic real estate investments.

Meanwhile, investors could be missing a significant opportunity. Real estate advisers report the bottoming London property market, which holds almost one quarter of the value of the world's available offices, is ripe for investment.

Yields at the end of 1990 for prime London office property reached about 9.6% in the city and 8% in the West End, and about 7% in the United Kingdom overall, according to Investment Property Databank, London.

Those are the highest yield levels since the mid-1970s crash in London real estate, according to Jones Lang Wootton Realty Advisors, New York.

But only a very few U.S. pension fund executives are interested in London or any other real estate outside the United States. That's why only two of eight real estate money managers offering commingled international realty funds have signed an clients.

Any speedy growth in the rate of international property investment is doubtful for a number of reasons:

- Pension funds are wrestling with poorly performing U.S. real estate portfolios. Some are cutting back their allocations to real estate, and have little appetite for additional real estate anywhere.
- The early experience of JMB Institutional Realty Corp.'s Randsworth PLC deal — one of the few completed international real estate deals for U.S. pension funds — has not been a stellar one.
- European property prices are higher than U.S. prices, a deterrent especially when the U.S. experience has been poor.
- U.S. investors are unfamiliar with real estate markets, practices and legal structures in the diverse European markets.
- Some investors think locals would have an advantage over Americans in any transaction because of their familiarity with their own real estate markets.
- With international investing comes a currency risk.
- The possibility of political instability is unsettling to some investors.

Only 2% of 1,016 corporate pension funds and 3% of 310 public funds have any international real estate investments, consultants Greenwich Associates, Greenwich, Conn., reported at the beginning of 1991. And only another 2% of corporate funds and 4% of public funds indicated they plan to start investing in international real estate.

U.S. real estate investment clearly has disappointed pension executives, and they seem unwilling to risk another disappointment overseas.

American tax-exempt investors asked for — and were promised — long-term domestic returns substantially over the rate of domestic inflation.

But the widely followed Russell-NCREIF index reported that for 1990, pension investors got a total return of 1.3% on domestic core real estate, part of a slide that has been going on for several years.

And investors are shoring up to avoid future troubles with U.S. property not now underperforming, while others are pondering what to do with properties in closed-end funds maturing in a depressed U.S. market.

Investment advisers marketing European real estate investment said U.S. pension executives' warming interest in international property chilled in 1990 as commercial property prices began to fall overseas and domestic property prices fell further at home.

They also said it was unfortunate that some U.S. pension funds bought Randsworth PLC at virtually the crest of the market in the United Kingdom in 1989.

Randsworth, a publicly traded real estate company with some 35 properties in London's West End taken private by JMB, has become a symbol to numerous U.S. investors of the difficulty of international property investment.

Property return figures indicate U.S. investors did buy into Randsworth as the London West End property market was booming and prices for properties were high. Their attention to European property had been sparked by increasing rents and prices there.

According to the Investment Property Databank, properties in the West End of London had a total return of about 37% in 1987 and 40% in 1988.

But in 1989, as U.S. tax-exempt investors pumped $340 million (including $50 million from JMB) into West End properties to take Randsworth private, the total return dropped to 18%.

In 1990, West End properties had a total return of −7.5% while City of London properties returned −14.1%.

The value of Randsworth fell 6%, but investors took a much greater loss because about one-half of their investment was in pound-denominated floating-rate debt. Interest payments rose as interest rates climbed in the United Kingdom. In 1990, investors in Randsworth paid down about one-half of its existing debt.

Randsworth is more a financing structure problem than a real estate problem, said Charles Grossman, a managing director with Jones Lang Wootton Realty Advisors, New York.

Meanwhile, U.S. pension executives are undergoing an education process with international real estate.

While U.K. pension funds began international real estate investment in the late 1950s, U.S. pension funds haven't had to do so because their own country is so much larger than most European countries.

Plus, many pension funds didn't even invest in any kind of real estate until the late 1970s or early 1980s. Real estate is still unfamiliar to them.

The $62 billion California Public Employees' Retirement System commissioned a study of international real estate investing from the Roulac Consulting Group. The study noted many of the potential problems in real estate investment in lands foreign to Americans.

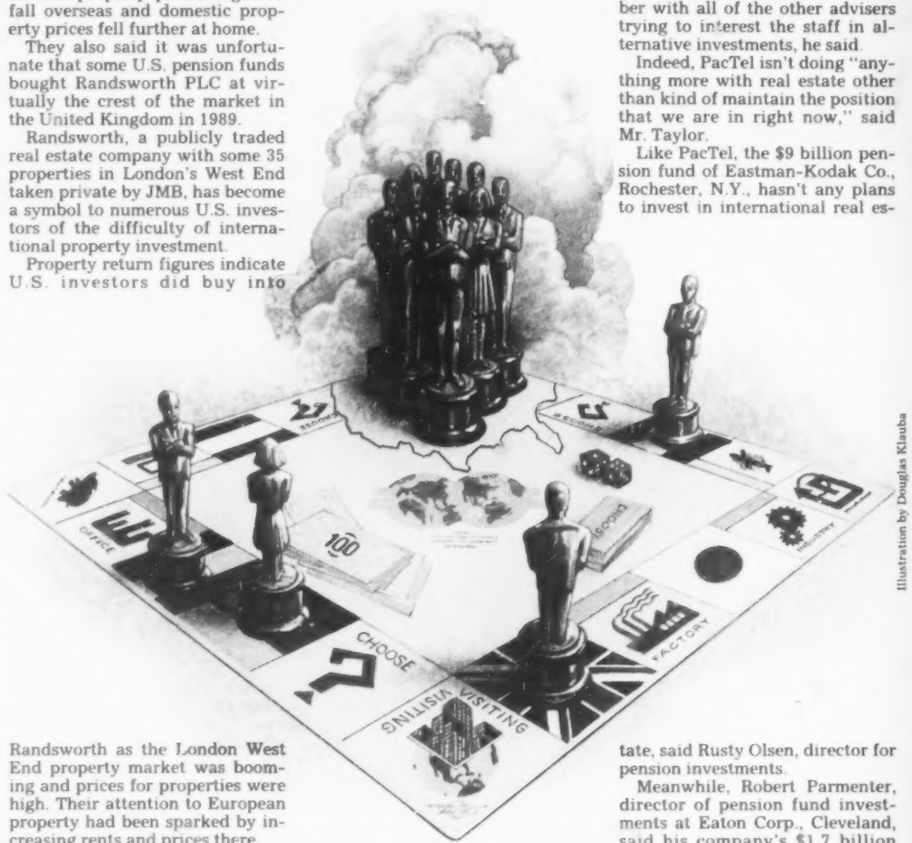


Illustration by Douglas Klauba

The study, delivered in February, noted American investors are unfamiliar with a foreign country's investment environment. They don't know many of the important investment networks and relationships, and they are concerned about potential economic and political instability. Spain, for example, was considered a fascist state ruled by a dictator until recently, and France has at times rebuffed foreign investment.

Currency exchange rate volatility, inconsistent property design and construction quality, tax policy and regulatory differences, and unfamiliar employment and demographic information represent other problems for the American investor, the report noted.

For most U.S. pension investors, investment in international property doesn't seem imminent. And when questioned, they generally cite some combination of the above reasons.

E. Douglas Taylor, executive director for investment management at Pacific Telesis Group in San Francisco, said PacTel's $11 billion pension plan isn't considering investing in foreign real estate. Pacific Telesis has between 5% and 10% in real estate.

"It is not something that we are currently thinking about, and what we do two years from now, we don't have a crystal ball. There are a lot of people talking about it. I haven't seen a lot done, although my network isn't perfect," Mr. Taylor said.

Money managers marketing international real estate programs to PacTel staff must take a number with all of the other advisers trying to interest the staff in alternative investments, he said.

Indeed, PacTel isn't doing "anything more with real estate other than kind of maintain the position that we are in right now," said Mr. Taylor.

Like PacTel, the $9 billion pension fund of Eastman-Kodak Co., Rochester, N.Y., hasn't any plans to invest in international real estate, said Rusty Olsen, director for pension investments.

Meanwhile, Robert Parmenter, director of pension fund investments at Eaton Corp., Cleveland, said his company's $1.7 billion pension plan has been getting out of real estate because the pension committee doesn't think real estate is a competitive asset class.

Eaton's plan now only has 2% or 3% in real estate, mostly through limited partnerships, compared with 15% to 20% in the past.

"We have had a phase-out program, but we are not rushing to get out of real estate," said Mr. Parmenter.

About international property investments, Mr. Parmenter said, "We haven't considered it at all, and we haven't had anybody try to market it to us. That's probably because whenever somebody calls me with a real estate investment, I point out to them that we are disinvesting."

At Southwestern Bell, St. Louis, Stan Fujarski, director of pension investments administration, said his $8.3 billion fund last year reduced its allocation to real estate to 8% or 9% of assets from 10%.

Consequently, said Mr. Fujarski, there's no immediate need to invest in international real estate.

At California Employees, investment committee members weren't in agreement on the need for a policy on international real estate investment. Said Charles Valdez, chairman of the investment committee: "It should be axiomatic that we have a policy."

See **Overseas** *on page 22*

Efficient Real Estate Securities Portfolios

Although real estate stocks do not offer the same risk-return profile as direct property investments, property securities do reflect underlying real estate market fundamentals. Based on returns from 1985 — 1991

	Investors risk-return preference		
	Minimum risk lowest return	Moderate risk and return	High risk and return
Volatility	10.4	12.0	16.2
France	53.0	31.0	1.0
Japan	18.0	37.0	57.0
Spain	1.0	11.0	19.0
United Kingdom	7.0	—	—

Source: Salomon Brothers Inc. | Percentages may not add to 100% because of rounding.

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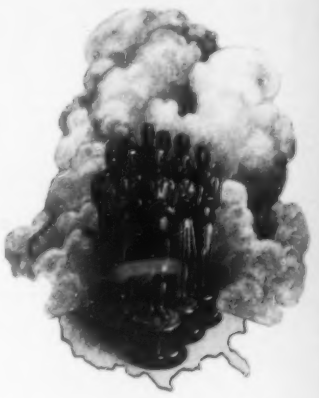


Continued from page 21

But committee member Jake Petrosino said: "I am very, very concerned as one board member that the attendant costs in developing an expertise and relationships are not cost effective, that there are better investments in real estate in the United States and certainly possibly in California and other areas. I do believe I am not interested personally as a board member in expanding the asset allocation (to international) real estate."

Just having such a policy would pressure advisers and staff to invest in international real estate, Mr. Petrosino said.

He referred to U.S. investors' understanding of international real estate markets as a virtual "black hole" compared with what the Europeans know about their own markets. U.S. investors, Mr. Petrosino argued, would be "significantly disadvantaged" in making property investments overseas.

In a split vote, the California Employees investment committee decided to adopt a policy that will allow the board to at least look at international real estate.

One factor that might have carried the vote is the pension fund already owns international real estate through its investment in JMB's purchase of Cadillac Fairview Corp. Ltd. in 1987.

JMB and 39 institutional investors acquired Cadillac Fairview, Toronto, in a $5.8 billion transaction. The Cadillac Fairview portfolio consists of 31.5 million square feet in 56 retail properties in Canada and the United States, and 13.5 million square feet of space in 20 office and mixed-use properties in Canada.

Despite the skepticism among some investors, there are sound reasons for investing in international real estate:

- The U.S. real estate market is only a small fraction of the world real estate market, and therefore the non-U.S. market must hold many opportunities for successful investing.
- The non-U.S. market offers opportunities for wider diversification of a real estate portfolio.
- As the Roulac report points out, "Due to the continuing globalization of the world's economy, diversification strategies demand that portfolios more closely reflect the relative distribution of global wealth."

Real estate advisers think it is inevitable that diversification-hungry American investors will enter the international property markets in big numbers because the domestic market is too small to provide all the opportunities.

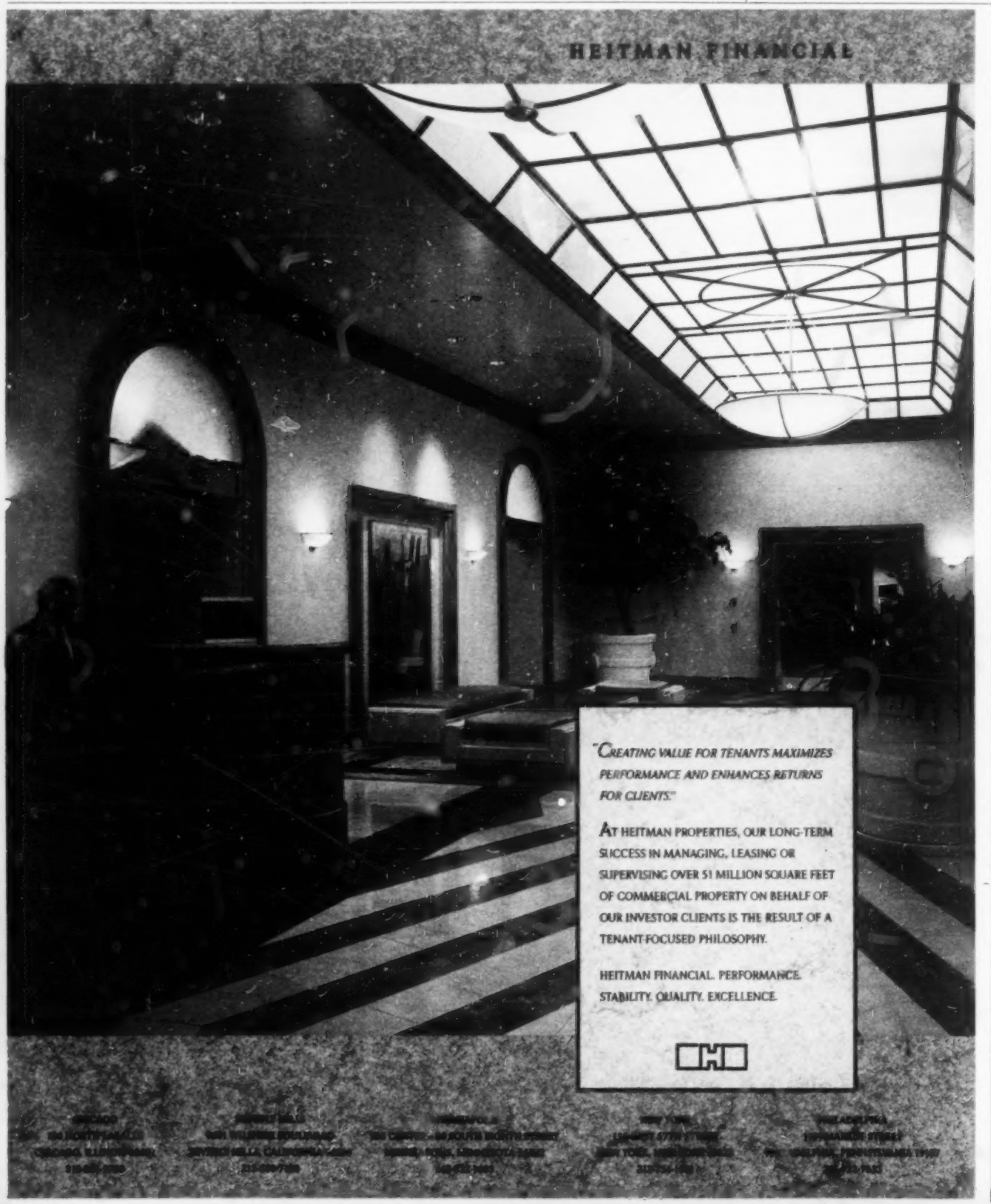
North America represents only 38% of the value of all available office properties, excluding Tokyo, according to Salomon Brothers Inc., New York. When Tokyo is included — although it is difficult for any but the Japanese to invest there — North American office properties represent only 13% of the value of the world market.

Real estate managers have focused on Europe as the primary target for investment of American pension dollars. Property markets in major European cities are huge.

Paris has about 360 million square feet of office space; London, 260 million; Frankfurt, 90 million; Brussels, 70 million; and Amsterdam, 50 million.

Manhattan has only about 150 million to 200 million square feet, but metropolitan New York, including parts of nearby New Jersey, has more square footage of office space than most European cities, between 300 million and

See **Overseas** *on page 24*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Overseas

Continued from page 22

400 million square feet.

But real estate in some European cities is much more expensive than properties on New York turf, according to Jones Lang Wootton's Mr. Grossman. Some London property rents for $100 a square foot per year.

Advisers agree total U.S. tax-exempt investment in international property in cash totals only about $3 billion, and only $1 billion when Canadian property investments are excluded.

Those figures pale besides the estimated $50 billion U.S. tax exempt investors report investing in international stocks and bonds.

One tax-exempt investor who is seriously considering investment in international real estate is the $2 billion Rockefeller Foundation, New York.

David White, chief investment officer, said the foundation is studying the area, but has not made a decision.

Mr. White lived in Europe for about two years, and has continued to make several trips there each year, including to meet with real estate managers. Consequently, it is not unfamiliar territory to him.

He believes the currency exchange rate problem is not an issue for the foundation because it has to deal with that problem for international stock investments.

"Currency is a separate issue. My view is that we hedge the currency, but that is a different decision than going into European real estate just as with stocks or any other asset class. It is an issue, but it is no different an issue than you face with any other asset, bonds or stocks."

The foundation's primary interest in investing internationally in real estate is diversification, a greater investment return and less of a chance of overbuilding because European lenders are more disciplined than their U.S. counterparts.

He thinks the European economy could rev up with greater economic unification there in 1992.

About whether he will actually invest, he replies, "I have a definite interest. It will be a strategy call." He added, "If we go, we are going to go indirect; it will be in a closed-end fund."

Despite the apparent lack of interest on the part of pension executives, real estate investment organizations are still establishing and marketing products.

Jones Lang Wootton has formed the JLWRA Europe Fund I for limited partnership investment across Europe. The fund is seeking $500 million in initial capitalization, and an eventual capitalization of $1 billion.

The minimum contribution is only $5 million, but so far no U.S. investors have contributed to the fund although it has been marketed since last October.

Prudential Realty Group, Newark, N.J., already has contributed, through general account assets, part of the $2 billion with seven foreign investors in the Prudential Global Real Estate Investment Fund. While the fund has contributions from pension funds, none is from American pension funds.

To encourage investment, Prudential is planning to let pension funds co-invest as a group, with contributions as little as $50 million.

Banque Indosuez, a private French bank, is offering a fund for property investments that will invest in France, Germany, Belgium, Denmark, Italy and Spain. The fund will have its first closing in about 90 days, and it will have an estimated $130 million in subscriptions. The money will come from seven subscribers, six of which are insurance companies. But none of the subscribers is American.

William Darrow, a senior vice president with Banque Indosuez, believes about one-half of the money will come from the Far and Middle East.

Baring Institutional Realty Advisors is offering the Baring International Property Fund I, a real estate investment trust. It will invest primarily in the United Kingdom through its affiliate, Baring Houston & Saunders, London.

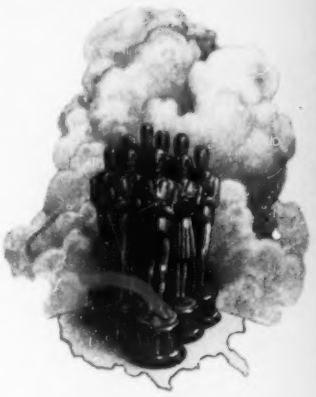
While three U.S. pension funds are being sent commitment papers, as yet none has invested.

Equitable Real Estate Investment Management, New York, is offering its Southern European Real Estate Fund. It will invest in properties in France, Spain and Italy. Equitable executives say the fund has "several" U.S. pension fund investors, but they wouldn't give any details.

But most clients, said Equitable executives, are in the policy formation stage and doing little actual investment.

JMB had been strongly considering offering a commingled real estate fund for investment in Europe this year. But that seems less likely now.

Jerry Claeys, JMB Institutional Realty chairman, said the market



for international real estate investment is "cooler than it was." He added: "We are seeing more caution from investors than we have seen in the past."

Fiduciary Trust Co. International, New York, reports it should have a first closing for its offering, TransEuropean Property Limited Partnership, in May with about $100 million. Two of the investors are U.S. pension funds.

The fund will invest in the United Kingdom, Netherlands, Germany, Spain, Belgium and other countries. MIM Property Management Services, London, a subsidiary of INVESCO MIM PLC, will be the general partner and asset manager of the commingled fund.

GIM Global Advisors, Newark, N.J., a fully owned subsidiary of G.I.M. (B.V. Algemeen Vermogensbeheer), one of the Netherlands' largest independent money management firms, has one $15 million U.S. separate account that invests in real estate securities.

The advisers realize they will be plowing hard, low-yielding fields for some time to come.

Some say American investors might be waiting for a better track record, and long-term favorable statistical data before they invest in London, which would be the most likely first step.

Ironically, waiting until the data look good could result in more bad return numbers for U.S. investors when they do invest in international property.

Many American investors have had a string of deals where they invested at the top of the market.

U.S. pension funds invested massively in domestic office buildings in the late 1970s and early 1980s when the track record was good and prices were high. As investment returns for office buildings fell in the mid-1980s, investors chased after the high returns generated from large retail properties and warehouses.

But retail property returns weakened in 1990 and warehouse investment returns soured. In 1990, retail properties had a 0.2% return for the fourth quarter and a 6.2% return for the calendar year. Warehouses produced a total return of −1.4% in the fourth quarter of 1990 and had a 2.2% total return for the year.

All major property types had a 1.3% return in 1990 in the United States.

"Anytime your decision-making process involves looking at historical data, there is always a risk you won't invest until the data look good, and therefore you go in at a peak," said Jones Lang Wootton's Mr. Grossman.

Investing at a peak apparently could happen for international investments as U.S. investors wait for the right time. But they seem more than willing to take that risk while they familiarize themselves with the opportunities and the risks of investing overseas.

Simply put, they would prefer an opportunity loss to a real loss. ■

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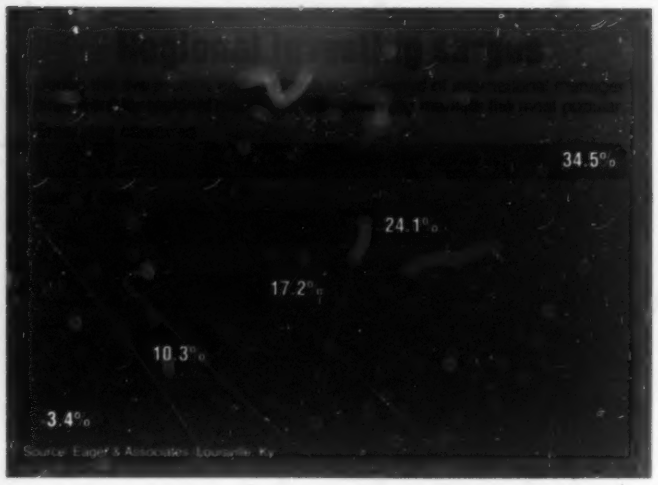

Niche

Continued from page 3

On the whole, some recent data suggest regional specialists perform better than international generalists. RCB International Inc., Stamford, Conn., a manager of managers, compared the performance of its team of six generalists to that of a team of 14 country and regional specialists. The result: between October 1986 and March 1991, including fees and expenses, the specialists' net annual return was 5.1 percentage points higher than that of the generalists'.

"Plan sponsors find it intuitively compelling to hire specialists," said Glenn Davis, a partner with Eager & Associates.

Pension funds use regional strategies as additions to, or complete or partial replacements for, their broader international assignments.

Recently, the approximately $1.6 billion District of Columbia Retirement Board chose to scuttle the indexing portion of its foreign investments and shift to an all actively managed style. The new program will include 25% of international investments in a Europe-only program, 25% in the Pacific and the remainder in a core actively managed, broad international assignment, said Adrian P. Anderson, the fund's executive director.

The fund has tapped Schroder Capital Management International, London, for a new $35 million Europe-only portfolio; Schroder already manages assets for the fund in a broader international style. The fund is now searching for a Pacific Basin manager, said Mr. Anderson.

Assets for the Europe account will come from cash flow, while the Pacific account will be financed both by cash and assets from the indexed program.

Last fall, the $1.9 billion Idaho Public Employees Retirement System switched from a Morgan Stanley Capital International Europe Australia Far East Index international program to a regional strategy, said John Hart, chief investment officer. In the process, the fund terminated one of its three EAFE managers and changed the mandates of the other two — one to Europe-only and the other to Japan-only.

The fund hired four additional international managers: Globe Finlay Inc., New York, for Europe only; Prudential Asia Fund Management Ltd., Hong Kong, Southeast Asia minus-Japan; BEA Associates, New York, emerging markets; and Dillon, Read International Asset Management, London, undervalued securities in EAFE countries.

The two Europe-only managers have different strategies. While one follows a bottom-up approach seeking stocks that work well in geographic biocs, the other manager "is looking at individual countries and economic cross currents in them" and investing with large- and small-cap stocks, said Mr. Hart.

The regionalized approach gives a fund more investing predictability and control, he said, ensuring the fund will be invested around the world in "a systematic process."

Also last fall, the almost $10.4 billion fund of Pacific Telesis Group, San Francisco, expanded its regional investing, begun in 1988, by hiring Acadian Asset Management and Nomura Capital Management, Tokyo. Acadian was hired to serve as a Europe-only manager along with HD International, London, and Morgan Grenfell Investment Services Ltd., London.

PacTel added Nomura to its cadre of Japan-only managers that already included Walter Scott & Partners Ltd., Edinburgh, Scotland, and Yamaichi International Capital Management Co., New York. The fund's other regional manager is Rowe Price-Fleming International Inc., Baltimore, handling investments in the Pacific Basin outside Japan, said Jerry Koch, PacTel's director of investment administration.

At the end of last year, the fund's regional international investments totaled slightly less than one-third of its $1.84 billion in foreign investments. ■

Leveraged ESOP put on hold

CINCINNATI — Cincinnati Bell will not proceed with the formation of a announced leveraged employee stock ownership plan because of market conditions.

In June 1990, the company announced it would spend about $72 million to acquire 3 million newly issued common shares, or slightly less than 5% of outstanding common shares. The company had filed a shelf registration for the issuance of up to $75 million principal amount of 10-year notes to fund the purchase of the shares to establish the trust during the third or fourth quarter of 1990.

But market conditions were "not what we were looking for," said Cynthia Cantoni, a spokeswoman, adding that no decision has been made as to whether Cincinnati will form a LESOP at a future date. ■

Bonds

Continued from page 3

$150 million in 30-year 8⅞% debentures. "We did a $500 million-plus acquisition last September. Two of the payments ($150 million each) were due this year, one in May and one in October," said Ronald Eidell, vice president and treasurer of R.R. Donnelley. The shelf, filed a year ago, was drawn down from $500 million.

Donnelley issued 30-year bonds because it was financing the $525 million purchase of Meredith Burda Cos., a printing company with very long-term assets and contracts. Meredith Burda has $530 million in sales.

The company probably will finance the other payment out of a combination of commercial paper and medium-term notes, although it has no medium-term notes program in place as yet.

On April 17, Air Products & Chemicals, Allentown, Pa., issued $100 million of 30-year 8¼% debentures. Marshall Sullivan, assistant treasurer, said the issue was long because "our assets tend to be long lived, and whenever we can finance at an attractive rate," the company finances at long maturities. Proceeds were used to repay commercial paper outstanding and for general corporate purposes.

Investor demand for corporate bonds improved at the end of 1990 as prices of corporate bonds had cheapened dramatically and investors' economic outlook brightened. Supply then picked up, as low interest rates, tightened spreads and investor interest lured many corporate issuers to market. That rush might have inflated prices, some investors said.

"For investors the market isn't as attractive as it once was. Spreads have tightened a significant amount," said Michael Gray, portfolio manager at Fidelity Investments, Boston.

The most dramatic example is average quality BBB-rated bank bonds. Spreads tightened 200 to 300 basis points late in the first quarter as the outlook improved for banks. In the fall, "no one would touch banks with a 10-foot pole," Mr. Gray said.

Fidelity has been buying corporates selectively. Since April its purchases have included RJR Nabisco's seven-year senior bullets and the bonds of The Pep Boys, Continental Bank Corp. and Wal-Mart Stores Inc.

"Bonds have rallied based on a hope the economy will turn. Maybe it won't turn as fast as people think. Maybe now's a good time to scale down corporates," Mr. Gray said.

Investors could take advantage of the current tight spreads to upgrade to higher-quality corporates, move back into mortgages or buy Yankee bonds.

While BBB corporates were priced at 200 to 250 basis points over Treasuries in January, the spread is now only 175 basis points. The spread on 10-year AA-rated Yankee bonds has tightened only slightly to 85 basis points from 100, Mr. Gray said.

One firm not hot on the corporate bond trail is Chancellor Capital Management, New York. "There's a tremendous amount of supply and billions more to be issued in the coming month, but we haven't been buying," said Patrice Pancza, vice president and portfolio manager. She noted the firm believes the recession hasn't run its course and is thus buying corporates very sparingly.

Chancellor is focusing on high-quality, shorter-term, non-bank financial paper as opposed to industrial credits. It is forecasting an end to the recession by the end of the year.

In the first quarter, selectively purchased longer to intermediate corporates, including Wal-Mart's 20-year non-callable bonds. ■

Amex

Continued from page 2

The Amex proposal differs from what the NYSE and NASD adopted in that it would not limit the circumstances in which companies could have varying classes of stock with varying voting rights and does not have a specific prohibition against disenfranchising transactions, said James Heard, senior adviser to Institutional Shareholder Services Inc., Washington.

Several institutional investors said they hadn't studied the Amex proposal in detail, but their initial reaction was negative. "We are a firm supporter of the one-share, one-vote concept, so to the extent that the proposal controverts that, we would oppose it," said Kayla Gillan, assistant general counsel at the $64 billion California Public Employees' Retirement System, Sacramento. System officials will study the proposal when the SEC releases it for public comment and make appropriate comments then, Ms. Gillan said.

The $8.8 billion State of Connecticut Trust Funds likely will write to the SEC to voice its disagreement with the proposal, said Maryellen Andersen, investor and corporate relations director. "We don't agree with disproportionate voting rights," she said. "We agree with one share, one vote."

Even though institutions do most of their trading on the NYSE, not the Amex, it's important to stand up for one share, one vote everywhere, she added.

An SEC spokeswoman said last week the agency had not yet received the Amex proposal. Once such a proposal comes in, the SEC usually acts on it within 90 days.

James George, investment manager at the $12 billion Oregon Public Employes Retirement System, Salem, said he hadn't seen the Amex proposal but is generally opposed to concentration of shareholder voting power. "I would be very surprised if non-controlling shares would vote in favor of that," he added.

Bob Shabazian, Amex assistant vice president-corporate communications, said the proposal actually would allow companies and shareholders increased flexibility, because they would have the authority to approve or disapprove a change in voting rights. "We feel that shareholders should have a say in what their company does."

Mr. Heard, however, said this power is illusory; there's nothing to keep companies from offering incentives, such as extra dividends, to induce shareholders to disenfranchise themselves.

Mr. Shabazian also said the proposed rule would provide protection for shareholders by requiring that all companies with multiple classes of stock have independent directors constituting at least one-third of the board or, alternatively, that the holders of the class of stock with lower voting power have the right to elect at least one-fourth of the board.

Although some observers have seen the proposal as a way for the Amex to induce more companies to list on it, Mr. Shabazian said this is not the case. The Amex panel that formulated the proposal, later approved by the exchange's directors, just saw it as a benefit to shareholders, he said.

Current Amex rules allow companies to list shares with disparate voting rights but only if no class of stock has voting power more than 10 times that of any other class, Mr. Shabazian said. Also, current rules prohibit non-voting stock. Companies that already have multiple classes of shares would be grandfathered and not required to obtain additional shareholder approval for shares outstanding. ■

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